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ABSTRACT

Since fiscal year (FY) 1997, states have used funds from the Temporary Assistance for Needy Families (TANF) block grant to supplement other funds in efforts to provide more child care assistance. This report provides an overview of the rules governing the use of TANF funds for child care. The report also describes how states used TANF funds to expand child care assistance between FY1996 and FY2000; explains how states spent TANF funds on child care in FY2002, in comparison to FY2001 and in the context of overall use of TANF in FY2002; and discusses why use of TANF for child care is likely to decline. The report then raises policy implications of these data for TANF reauthorization. The report concludes by pointing out that TANF is no longer a growing funding source for state child care programs. The use of TANF for child care was essentially unchanged between FY2001 and FY2002, and remains below the high of FY2000. Other uses for TANF have increased during this time period, although it is unclear if this represents a continuing trend. Indications are that by FY2003 or FY2004, the use of TANF for child care will likely decline due to state budget crises, dwindling or exhausted reserves, and TANF caseload dynamics. It is emphasized that this combination of factors will result in the loss of child care assistance for hundreds of thousands of low-income children, and that states will need more dedicated mandatory child care funding to prevent these cuts and meet any new TANF work requirements. (KB)

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Welfare Dollars No Longer an Increasing Source of Child Care Funding: Use of Funds in FY 2002 Unchanged from FY 2001, Down from FY 2000

By Jennifer Mezey and Brooke Richie

August 6, 2003

Since fiscal year (FY) 1997, states have used funds from the Temporary Assistance for Needy Families (TANF) block grant to supplement other federal and state child care funds in efforts to respond to the need for child care assistance. Between FY 1997 and FY 2000, federal and state spending on child care more than doubled, and much of the increase was due to TANF funds. After growing steadily from FY 1997 through FY 2000, state use of TANF for child care declined in FY 2001. New data from the U.S. Department of Health and Human Services (DHHS) indicate that states' use of TANF for child care essentially remained flat from FY 2001 through FY 2002.¹ According to DHHS, states used approximately \$3.5 billion of federal TANF funds for child care in FY 2002, essentially the same amount as was used in FY 2001 and down from a high of \$3.96 billion in FY 2000.²

TANF remains an important source of funding for state child care programs; however, it is no longer an *increasing* source of funding in many states. Furthermore, TANF might soon become a declining source of child care funding, in light of dwindling or exhausted reserves of prior year TANF funds and increases in cash assistance caseloads in many states. Analyses of FY 2003 and proposed FY 2004 state spending decisions show that states are already cutting their child

¹ Federal TANF and TANF MOE expenditure data from DHHS for Federal Fiscal Years 1997 through 2002. Available at <http://www.acf.dhhs.gov/programs/ofs/data/index.html>.

² All figures in this report about spending levels for a particular year should be viewed as approximate, because of a technical issue in how states have been able to report use of TANF and MOE funds. States must report TANF and MOE financial data to the federal government on a quarterly basis. DHHS has posted financial data for all years through FY 2002. However, until recently, states have been permitted to modify their reporting without limitation after it was submitted, and they have also been allowed to make modifications of prior year spending, either by amending reporting for prior years or by reporting "negative spending" for the current year. Unfortunately, this process has made it virtually impossible to precisely describe current year spending or compare it to prior year spending. Actual spending for a year in a category may be higher than reported but be offset by "negative spending." For example, suppose a state reports \$10 million in spending for child care. The actual figure could be \$10 million—or perhaps the state spent \$15 million this year, while reducing reported spending for a prior year by \$5 million. In some cases, the reported "negative spending" for prior years is greater than the spending reported for that year—that is, a state that spent \$5 million in FY 2002 but reported that its prior year spending was actually \$10 million less would show a net negative \$5 million in TANF spending. For purposes of this analysis, we treat a state that shows negative spending for a year as having had no child care spending in that year. We treat a state that reports a negative transfer as one that has reduced the amount transferred for a prior year.

care programs, including TANF-funded child care. This analysis concludes that states need additional dedicated child care funding to prevent low-income families from losing their child care assistance due to state budget crises, declining TANF availability, and potentially costly and underfunded welfare work requirements.

This analysis provides a brief overview of the rules governing the use of TANF funds for child care; describes how states used TANF funds to expand child care assistance between FY 1996 and FY 2000; explains how states spent TANF funds on child care in FY 2002, both in comparison to FY 2001 and in the context of overall use of TANF in FY 2002; discusses why use of TANF for child care is likely decline in future years; and raises policy implications of these data for TANF reauthorization. The attached Appendices provide detailed state-by-state data related to the use of TANF for child care.

Rules Governing the Use of TANF Funds for Child Care

Congress gave states the ability to use TANF funds in their state child care programs in two ways. First, states may directly spend TANF funds on child care. These funds remain subject to TANF spending and data collection rules.³ Second, states may transfer TANF funds to their Child Care and Development Fund (CCDF) block grants; states can transfer up to 30 percent of their TANF block grants to CCDF and up to 10 percent to the Social Services Block Grant, as long as the total amount transferred does not exceed 30 percent of the TANF block grant award in any fiscal year. Congress also allowed states to use state funds that count towards meeting the CCDF state spending maintenance of effort (MOE) requirement (\$887 million per year) and other state child care spending towards meeting the TANF MOE requirement.⁴

States Used TANF Funds to Greatly Expand Child Care Services

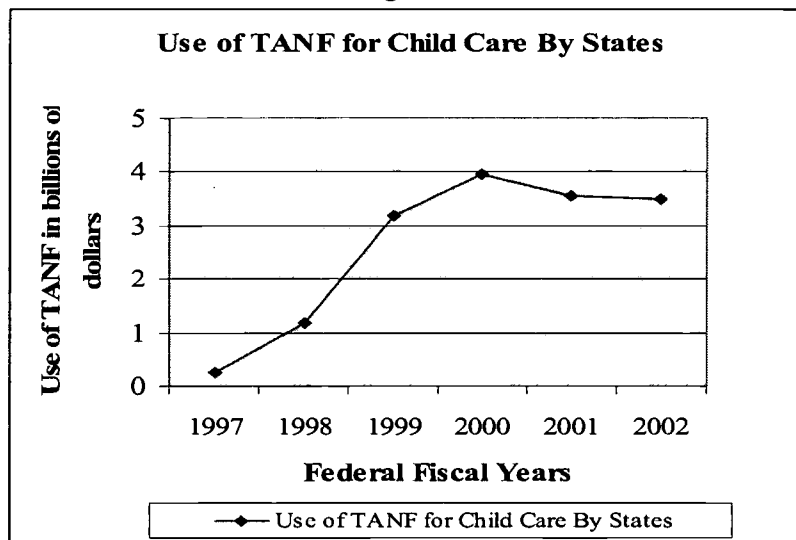
Between FY 1996 and FY 2000, TANF cash assistance caseloads fell by approximately 50 percent. Because states were given a flat TANF grant amount each year, the dramatic caseload declines freed up TANF funds that had previously been needed for cash assistance. States used these funds, in part, to provide child care to welfare recipients attempting to satisfy work requirements and leave the welfare rolls, as well as to families who had left or never received welfare to help them support their families through work and stay off welfare. By FY 1999, child care represented the largest category of expenditure of TANF funds after cash assistance.

³ DHHS regulations distinguish between TANF spending for child care for working families, which is considered nonassistance, and child care for unemployed families, which is considered assistance unless it is provided for less than four months in the form of a non-recurring, short-term benefit. Receiving assistance causes TANF work requirements, time limits, data reporting, and child support enforcement rules to apply to the family even if the family is not receiving TANF-funded cash assistance.

⁴ States could also use additional state funds above the CCDF MOE requirement and the CCDF state matching requirement to meet their TANF MOE requirements. Assume that a state spent \$10 to meet its CCDF MOE requirement, \$10 to draw down all of its available CCDF matching funds, and \$10 in additional state spending. The state could claim \$20 (the \$10 in CCDF MOE and the \$10 of state funds above the CCDF MOE and matching fund requirement) towards its TANF MOE requirement. See Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF on State Child Care Subsidy Programs*. Washington, DC: CLASP.

States dramatically expanded their use of TANF for child care between FY 1997 and FY 2000, thus contributing significantly to the overall increase in child care funding during these years (see Figure 1).

Figure 1



The number of states using TANF for child care increased from 12 to 48 during these years. The overall amount of TANF funds used by these states increased from \$249 million in FY 1997 to \$3.96 billion in FY 2000. During this same period, total child care spending increased from approximately \$4 billion to \$9 billion; about three-quarters of this funding increase was due to increased spending of federal child care funds, and the majority of that increase was attributable to TANF dollars. States used these funds to serve more children, create pre-kindergarten and after-school programs, increase provider payment rates, and fund quality investments.⁵

This expansion appears to have stopped in FY 2001 with the use of TANF funding declining from \$3.96 billion in FY 2000 to \$3.54 billion in FY 2001. The data reported to the federal government indicate how states spent their TANF funds and do not give the reasons behind their expenditure decisions. However, data from other sources show that the use of TANF did not decline because the demand for child care was being met fully with existing TANF and CCDF resources. Although the number of children receiving child care subsidies more than doubled between 1996 and 2000, in FY 2000, when the use of TANF for child care reached its peak, only one out of seven eligible children received child care assistance.⁶

⁵ Schumacher, Greenberg, & Duffy, 2001.

⁶ Mezey, J., Greenberg, M., & Schumacher, R. (2002). *The Vast Majority of Federally Eligible Children Did Not Receive Child Care Assistance in FY 2000 – Increased Child Care Funding Needed to Help More Families*. Washington, DC: Center for Law and Social Policy.

State Use of TANF for Child Care in FY 2002

Table 1 (see page 5) shows state use of TANF funds for child care from 1997 through 2002, providing figures on direct spending, transfers to CCDF, and state spending on child care for TANF MOE credit. Main findings on state spending in FY 2002 include:

- **At the national aggregate level, state use of federal TANF barely changed between FY 2001 and FY 2002.** Forty-six states used \$3.5 billion of federal TANF funds for child care in FY 2002—representing 20 percent of all federal TANF funds spent and transferred in FY 2002. Both the amount of federal TANF funds devoted to child care and the percentage of TANF funds used remained virtually unchanged between FYs 2001 and 2002, while the number of states using TANF for child care increased from 44 to 46. However, both the amount of TANF used and the number of states using TANF for child care are below FY 2000 levels, the high-water mark for use of TANF for child care.
- **Fewer states transferred TANF funds to CCDF in FY 2002 than in FY 2001, while the total amount transferred (minus the reversal of transfers from prior years) slightly increased.** The number of states transferring TANF to CCDF in FY 2002 declined from 40 to 38. In FY 2002, as in FY 2001, two states reversed prior year transfers in amounts exceeding any current year transfers, thus yielding a negative transfer figure. At the same time, the amount transferred remained essentially the same—\$1.9 billion in FY 2001 and \$1.93 billion in FY 2002, representing 11 percent of total state TANF block grant amounts in these years.⁷ Between FY 2001 and FY 2002, 20 states decreased their TANF transfers and 20 states increased their TANF transfers to CCDF.
- **In contrast, more states spent TANF directly on child care in FY 2002 compared to FY 2001, while the total amount spent stayed relatively constant.** In FY 2002, 36 states spent approximately \$1.57 billion of TANF funds directly on child care; in FY 2001, 31 states spent \$1.58 billion. More than twice as many states increased as decreased their TANF child care spending in FY 2002; 25 states increasing TANF child care expenditures compared to 12 that decreased these expenditures.
- **States are transferring to CCDF and spending TANF directly in almost equal proportions.** In FY 2002, as in all previous years since FY 1997, more states transferred TANF to CCDF than spent TANF directly on child care. However, the amount of funds transferred has decreased since its high point in FY 1999; the amount of TANF funds directly spent on child care latter has remained largely the same since FY 2000 after vastly increasing since FY 1997. At this point, the amount of TANF funds transferred to CCDF still exceeds the amount of TANF funds directly spent on child care but only slightly.

⁷ Total state TANF block grant amounts include the basic TANF block grant, supplemental amounts, and performance bonuses.

- In FY 2002, states claimed \$1.93 billion of state spending for TANF MOE credit, an increase from \$1.76 billion in FY 2001 and \$757 million in FY 1997. A portion of these funds were also claimed for CCDF MOE credit, which is allowable under TANF. We do not know, however, that this increase means that additional state dollars are being used for child care. It could mean that states are counting more of their state child care expenditures towards TANF MOE or that they are counting their state expenditures differently than they have in the past.

Table 1 – Use of TANF and MOE for Child Care: Federal Fiscal Years 1997 through 2002

Federal Fiscal Year	Number of Transfer States ⁸	Total Amount Transferred	Number of Direct Spend States ⁹	Total Amount of Direct Spending	Total Transferring/Direct Spending States ¹⁰	Total Transfer/Direct Spending	State TANF MOE Child Care Expenditures ¹¹
1997	9	\$235 million	6	\$13.5 million	12	\$249 million	\$757 million
1998	28	\$787 million	15	\$371 million	32	\$1.16 billion	\$981 million
1999	43	\$2.58 billion	21	\$602 million	46	\$3.18 billion	\$1.12 billion
2000	44	\$2.41 billion	34	\$1.55 billion	49	\$3.96 billion	\$1.89 billion
2001	40	\$1.9 billion	30	\$1.64 billion	44	\$3.54 billion	\$1.76 billion
2002	38	\$1.93 billion	36	\$1.57 billion	46	\$3.5 billion	\$1.93 billion

Source: TANF Financial Data, Combined Spending From Federal TANF Grant Through the Fourth Quarter for FYs 1997 through 2002; State Maintenance of Effort Expenditures in the TANF Program for FYs 1997-2002. Available at <http://www.acf.dhhs.gov/programs/ofs/data/index.html>.

⁸ In FYs 2000, 2001, and 2002, two states withdrew prior year transfers, resulting in a net negative transfer amount. Other states might also have withdrawn prior year amounts during these years, but the withdrawal was not large enough to result in a net negative transfer figure. See footnote 2 for an explanation of DHHS expenditure reporting requirements.

⁹ In FYs 1998, 1999, and 2002, one state changed its reported expenditure of prior year funds so that the resulting direct expenditure of TANF total was negative; in FY 2001, two states reported such a change. This does not mean that other states did not also change their reporting of prior year expenditures. However, because their FY 2002 total is positive, we don't know the extent of the prior year change versus FY 2002 spending levels. See footnote 2 for an explanation of DHHS expenditure reporting requirements.

¹⁰ These are states that had a positive transfer and/or spending amount for FYs 1997-2002. States are not included if they reported \$0 transferred to CCDF and spent for child care directly or if they reported a negative transfer or expenditure and \$0 transfer or expenditure for a given year.

¹¹ A portion of these state expenditures were also claimed for credit towards the CCDF MOE requirement.

How Did States Spend the Rest of Their TANF Funds in FY 2002?

Between FY 2001 and FY 2002, the overall use of TANF stayed relatively constant, just as it did for child care. States spent or transferred over \$17 billion in TANF and MOE funds in FY 2002. States used their TANF and MOE dollars for the following activities:¹²

- Federal and state TANF resources devoted to cash assistance continued to decline in FY 2002 to \$9.4 billion—representing a \$2 billion decline since FY 2000.
- States continued to spend freed-up funds on child care and other work supports, such as refundable tax credits, non-recurrent short-term benefits, and transportation. In FY 2002, states used \$4.2 billion in federal TANF and state TANF MOE for these work support activities other than child care.
- Spending under two categories, “Other Non-Assistance” and “Authorized Under Prior Law,” totaled \$4.6 billion in FY 2002—an increase from \$2.8 billion in FY 2000. Taken together, states used more of their TANF funds for these sets of activities than for child care in FY 2002. However, little is known about these two growing categories of TANF expenditures because states often do not provide details on the use of these funds. “Authorized Under Prior Law” is likely to include juvenile justice, non-relative foster care, and other child-welfare related expenditures. “Other Nonassistance” can include a variety of benefits and services. These expenditures might be important in supporting low-income families and helping them move toward self-sufficiency. However, without greater information about how these funds are being used, one cannot make this determination.

An Uncertain Future: the FY 2003 Outlook and Beyond

Although FY 2002 is the most recent year for which official data are available on state use of TANF for child care, there are indications that state use of TANF for child care may stay flat or decrease in FY 2003 and into FY 2004. First, prior year TANF reserves are dwindling and in danger of soon being exhausted. States have been using these reserves to fund child care programs and other work supports. Second, unprecedented state fiscal crises are causing states to shift TANF funding away from child care to meet other funding needs. Third, the dramatic TANF caseload declines seen between FY 1997 and FY 2000 have slowed or been reversed in many states in recent years.

- **TANF reserve levels are dwindling.** States have used substantial unspent TANF funds from prior years to augment funding for TANF-related programs, including child care. In fact, in both FY 2001 and FY 2002, states spent nearly \$2 billion *more* than they received from their annual TANF block grant allocations.¹³ However, as these reserves are spent, this source of child care funding is drying up. According to the U.S. Treasury Department, states spent \$1.5 billion more in TANF dollars in the first three quarters of FY 2003 (October 1

¹² The following bullets are from: Greenberg, M., & Richer, E. (2003). *How States Used TANF and MOE Funds in FY 2002: The Picture from Federal Reporting*. Washington, DC: Center for Law and Social Policy.

¹³ Neuburger, Z. (2002). *Annual TANF Expenditures Remain \$2 Billion Above Block Grant*. Washington, DC: Center on Budget and Policy Priorities. Available at: <http://www.cbpp.org/10-30-02wel.htm>.

through June 30) than they spent in the first three quarters of FY 2002,¹⁴ thus further lowering their reserves if this trend continues for the rest of FY 2003. After FY 2003, the Congressional Budget Office (CBO) projects that TANF spending under current law will decrease from \$19.6 billion in FY 2003 to \$16.9 billion in FY 2008. Given that child care makes up such a large percentage of TANF funds used by states, one can reasonably assume that if overall TANF spending decreases, TANF child care spending will decrease at least proportionately.

- **State fiscal crises are already causing cuts in child care and other TANF-funded programs and are likely to worsen in the next few years.** States are experiencing the worst fiscal crises since World War II. Since FY 2001, states have had to close budget gaps cumulatively totaling \$200 billion. In FY 2003, 39 states faced budget shortfalls at some point during the fiscal year. As of April 2003, states faced \$21.5 billion in budget gaps that had to be closed before the end of the fiscal year; this amount is on top of the \$49 billion budget shortage that had to be resolved in state FY 2003 budgets. States face a budget gap of almost \$80 billion for FY 2004.¹⁵

State budget crises are leading to cuts in spending on child care and other supports for low-income families:

- A recent survey by the Center on Budget and Policy Priorities found that more than 35 states have cut programs funded with TANF and CCDF funds and that “most of these cuts are in programs that promote the goals of welfare reform.”¹⁶
 - The General Accounting Office reports that, between January 2001 and April 2003, 23 states made policy changes that reduced the availability of child care subsidies for low-income working families, and 11 states are proposing future policy changes that will decrease current levels of child care funding. The GAO authors conclude that, even though nine states increased subsidy availability, the overall effect of state policy decisions since January 2001 has been to decrease the availability of child care assistance for low-income working families. The authors also conclude that low-income, non-TANF families are bearing the brunt of these cuts.¹⁷
- **TANF caseload declines have slowed or been reversed in many states.** Between December 2002 and March 2003, 23 states reported caseload increases and 27 reported decreases. Since the start of the recession in March 2001, 29 states have reported caseload increases, and 21 states have reported decreases. The number of states with annual caseload

¹⁴ U.S. Department of Treasury. (2003, July 15). *Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2003 Through June 30, 2003 and Other Periods*. Table 5. Washington, DC: Author.

¹⁵ National Conference of State Legislatures. (2003, July 23). *State Budget & Tax Actions 2003. Preliminary Report: Executive Summary*. Denver, CO: Author. Available at www.ncsl.org.

¹⁶ Parrott, S., & Wu, N. (2003). *States Are Cutting TANF and Child Care Programs: Supports for Low-Income Working Families and Welfare-to-Work Programs are Particularly Hard Hit*. Washington, DC: Center on Budget and Policy Priorities.

¹⁷ U.S. General Accounting Office. (2003). *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*. Washington, DC: Author.

declines of more than 15 percent dropped from 39 to 2 between March 1997 and March 2003.¹⁸ In short, the vast majority of states are not experiencing the type of large caseload decreases seen between 1996 and 2000. It is unlikely that a significantly declining need for cash assistance will continue to free up resources that can be spent on work supports like child care.

Implications for TANF and Child Care Reauthorization

The dramatic expansion of child care funding has been a critical part of state efforts to promote work and child well-being since 1996. While welfare caseloads fell by half, child care caseloads doubled. The ability of states to provide child care outside of the welfare system was essential to helping families enter and sustain employment. If states can no longer maintain even current levels of child care assistance, families will suffer and states will be less able to promote employment. Given the impact of state funding decisions on non-TANF families, some low-income families could find that the only way to get child care assistance is to go on welfare.

Current levels of TANF funding alone, without significant expansions of CCDF funding, will force states to cut off child care assistance to children who are currently receiving it. The Center for Law and Social Policy and the Center on Budget and Policy Priorities estimate that, in the absence of additional child care funding, more than 360,000 children will lose child care assistance by FY 2008.¹⁹ These losses will come on top of the losses from state budget cutbacks described above.

Furthermore, if Congress passes stricter TANF work requirements, additional non-TANF children would lose their child care assistance if adequate funding is not provided. These children would lose assistance because states would have to divert resources from their assistance to ensure that the needs of TANF families are met. The Congressional Budget Office's basic estimate is that H.R. 4 (the welfare legislation passed by the House of Representatives) would create additional five-year TANF and child care costs of \$6.1 billion.²⁰ However, H.R. 4 would provide only a small increase in CCDBG funds (\$1 billion in increased federal matching funds over five years²¹) and no TANF funding increase.

¹⁸ Richer, E., Rahmanou, H., & Greenberg, M. (2003, July). *Welfare Caseloads in 27 States Decline in First Quarter of 2003: Most States Show Only Small Caseload Fluctuations*. Washington, DC Center for Law and Social Policy.

¹⁹ Parrott, S., & Mezey, J. (2003). *New Child Care Resources Are Needed to Prevent the Loss of Child Care Assistance for Hundreds of Thousands of Children in Working Poor Families*. Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy.

²⁰ Congressional Budget Office. (2002, May 8). *Memorandum to Interested Parties: Estimate of the Potential Costs to States of Meeting the Work Participation Requirements of H.R. 4, as passed by the House of Representatives, February 2003*. Washington, DC: Author.

²¹ States would need to spend approximately \$800 million in state funds over five years to draw down the full \$1 billion. Some have claimed that H.R. 4 provides for an additional \$3.3 billion over five years. However, \$2.3 billion comes from increasing the *authorization* levels for discretionary child care funding; the \$2.3 billion would still have to be appropriated, which is extremely unlikely in this fiscal environment. In fact, the FY 2004 appropriations bills passed by the House and pending in the Senate call for flat CCDF funding at FY 2002 levels.

Conclusion

TANF is no longer a growing source of funding for state child care programs. The use of TANF for child care was essentially unchanged between FY 2001 and FY 2002—and remains below the high of FY 2000. Meanwhile, other uses for TANF have increased during this time period, although it is unclear if this represents a continuing trend. Indications are that by FY 2003 or FY 2004, the use of TANF for child care will likely decline due to state budget crises, dwindling or exhausted reserves, and TANF caseloads dynamics. This combination of factors will result in the loss of child care assistance for hundreds of thousands of low-income children. States will need more dedicated mandatory child care funding to prevent these cuts and meet any new TANF work requirements.



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